CALIFORNIA PUBLIC EMPLOYEES' RETIREMENT SYSTEM BOARD OF ADMINISTRATION HEALTH BENEFITS COMMITTEE MEETING MINUTES

June 20, 2006

The Health Benefits Committee met on Tuesday, June 20, 2006, in the Lincoln Plaza North Building, 400 Q Street, Sacramento, California.

The meeting was called to order at 10:10 a.m. with the following members present:

George Diehr, Chair
Priya Mathur, Vice Chair
James Zerio representing Philip Angelides
Marjorie Berte
Rob Feckner
Debbie Endsley representing Michael Navarro
Tony Oliveira
Charles Valdes
Cindy Aronberg representing Steve Westly

Other Board members present:

Robert Carlson Kurato Shimada Maeley Tom

AGENDA ITEM 2 – APPROVAL OF THE MAY 16, 2006, HEALTH BENEFITS COMMITTEE MEETING MINUTES

The May 16, 2006, Health Benefits Committee meeting minutes were approved as presented.

AGENDA ITEM 3 – LEGISLATION

Lisa Hammond, Chief, Office of Governmental Affairs, presented information on the legislative items listed below.

3A. AB 2667 (BACA) – Health Care Providers Contract Considerations – This bill would require the Board of Administration of the California Public Employees' Retirement System (CalPERS Board), the Department of Managed Health Care (DMHC), the California Department of Insurance (CDI), and the Department of Health Services (DHS), when contracting with or licensing certain entities, to consider various specified factors, including the entities' history of providing, or arranging to provide, health care services or benefits including services or benefits under the Medicare or Medicaid program.

On **MOTION** by Marjorie Berte, **SECONDED** and **CARRIED**, the Committee recommended the Board approve the staff recommendation, that the Board adopt a neutral position, with suggested amendments, on AB 2667.

3B. Legislative Proposal – Pre-Funding Health Care Benefits – This proposal would amend the law to grant the Board authority to allow public entities that are eligible to participate in PEMHCA to contract with CalPERS to participate in a Pre-funding Plan, as defined, in order to pre-fund retiree healthcare benefits consistent with the financial disclosure requirements of the Governmental Accounting Standards Board Statements No. 43 and 45. In addition, the proposal would make other changes regarding the administration of the Pre-funding Plan as set forth in this item.

On **MOTION** by Debbie Endsley, **SECONDED** and **CARRIED**, the Committee recommended the Board approve staff's recommendation that CalPERS sponsor legislation to provide specific authority to the CalPERS Board to offer a Pre-funding Plan to public entities that do not participate in PEMHCA and to make other statutory changes regarding the administration of the Pre-funding Plan.

AGENDA ITEM 4 – SECOND READING – POTENTIAL 2007 HEALTH PROGRAM BENEFIT DESIGN

Sandra Felderstein, Chief, Office of Health Policy and Program Support, presented staff's recommendations on the proposed 2007 Health Program Benefit Design.

On **MOTION** by Marjorie Berte and **SECONDED**, the Committee recommended the Board: A. For Blue Shield, Kaiser and Western Health Advantage basic plans:

1. Increase office visit co-payments to \$15.

Mr. Valdes requested a roll call vote.

An electronic vote was taken:

NO
NO
NO
YES
NO
YES
YES
NO
NO

The final vote was 3 YES, 6 NO. The motion **FAILED**.

On **MOTION** by Rob Feckner and **SECONDED**, the Committee recommended the Board:

- A. For Blue Shield, Kaiser and Western Health Advantage basic plans:
 - 2. Increase emergency room co-payments to \$75 (waived if admitted as an inpatient or for observation as an outpatient).

Mr. Valdes requested a roll call vote.

An electronic vote was taken: James Zerio representing Philip Angelides YES George Diehr, Chair NO Rob Feckner NO Marjorie Berte YES Priya Mathur, Vice Chair YES Debbie Endsley representing Michael Navarro YES Tony Oliveira NO Charles Valdes NO Cindy Aronberg representing Steve Westly NO

The final vote was 4 YES, 5 NO. The motion **FAILED**.

On **MOTION** by Rob Feckner and **SECONDED**, the Committee recommended the Board:

A. For Blue Shield, Kaiser and Western Health Advantage basic plans:

3. Introduce a co-payment of \$100 per hospital inpatient admission.

Mr. Valdes requested a roll call vote.

An electronic vote was taken:

James Zerio representing Philip Angelides NO NO George Diehr, Chair Rob Feckner NO Marjorie Berte YES Priya Mathur, Vice Chair NO Debbie Endsley representing Michael Navarro NO Tony Oliveira NO **Charles Valdes** NO

Cindy Aronberg representing Steve Westly

The final vote was 1 YES, 7 NO. The motion **FAILED**.

On **MOTION** by Rob Feckner and **SECONDED**, the Committee recommended the Board:

A. For Blue Shield, Kaiser and Western Health Advantage basic plans:

4. Introduce an ambulatory surgery co-payment of \$25.

Mr. Valdes requested a roll call vote.

An electronic vote was taken:

James Zerio representing Philip Angelides NO George Diehr, Chair NO Rob Feckner YES NO Marjorie Berte Priya Mathur, Vice Chair NO Debbie Endsley representing Michael Navarro NO Tony Oliveira NO Charles Valdes NO Cindy Aronberg representing Steve Westly NO

The final vote was 1 YES, 8 NO. The motion **FAILED**.

On **MOTION** by Rob Feckner and **SECONDED**, the Committee recommended the Board:

- B. For PERS Choice basic plan and PERS Select basic plan (if adopted by the Board):
 - 1. Introduce a co-payment of \$100 per hospital inpatient admission.

Mr. Valdes requested a roll call vote.

An electronic vote was taken:

James Zerio representing Philip Angelides	NO
George Diehr, Chair	NO
Rob Feckner	NO
Marjorie Berte	YES
Priya Mathur, Vice Chair	NO
Debbie Endsley representing Michael Navarro	NO
Tony Oliveira	NO
Charles Valdes	NO
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Cindy Aronberg representing Steve Westly

The final vote was 1 YES, 7 NO. The motion **FAILED**.

On **MOTION** by Rob Feckner and **SECONDED**, the Committee recommended the Board:

- C. For PERS Choice basic plan, PERSCare basic plan and PERS Select basic plan (if adopted by the Board):
 - 1. Increase emergency room co-payments to \$75 (waived if admitted as an inpatient or for observation as an outpatient).

Mr. Valdes requested a roll call vote.

An electronic vote was taken:

James Zerio representing Philip Angelides YE	S
George Diehr, Chair NO)
Rob Feckner NO)
Marjorie Berte YE	S
Priya Mathur, Vice Chair YE	S
Debbie Endsley representing Michael Navarro YE	S
Tony Oliveira NO)
Charles Valdes NO)
Cindy Aronberg representing Steve Westly NO)

The final vote was 4 YES, 5 NO. The motion **FAILED**.

On **MOTION** by Rob Feckner and **SECONDED**, the Committee recommended the Board:

- C. For PERS Choice basic plan, PERSCare basic plan and PERS Select basic plan (if adopted by the Board):
 - 2. Expand and promote an urgent care network.

Mr. Valdes requested a roll call vote.

An electronic vote was taken:

James Zerio representing Philip Angelides	YES
George Diehr, Chair	YES
Rob Feckner	YES

Marjorie Berte	YES
Priya Mathur, Vice Chair	YES
Debbie Endsley representing Michael Navarro	YES
Tony Oliveira	YES
Charles Valdes	YES
Cindy Aronberg representing Steve Westly	YES

The final vote was 9 YES, 0 NO. The motion **CARRIED**.

On **MOTION** by Rob Feckner and **SECONDED**, the Committee recommended the Board:

- C. For PERS Choice basic plan, PERSCare basic plan and PERS Select basic plan (if adopted by the Board):
 - 3. Establish an imaging pre-authorization process.

Mr. Valdes requested a roll call vote.

An electronic vote was taken:

James Zerio representing Philip Angelides	NO
George Diehr, Chair	YES
Rob Feckner	YES
Marjorie Berte	YES
Priya Mathur, Vice Chair	YES
Debbie Endsley representing Michael Navarro	YES
Tony Oliveira	YES
Charles Valdes	YES
Cindy Aronberg representing Steve Westly	YES

The final vote was 8 YES, 1 NO. The motion **CARRIED**.

The following people spoke on Agenda Item 4:

Donna Snodgrass, Vice President, California State Employees' Association

Delores Duran-Flores, California School Employees' Association

Neal Johnson, SEIU Local 1000

Kristen Haynie, California Association of Professional Scientists and the Professional Engineers in California Government

Christy Bouma, California Professional Firefighters

J.J. Jelincic, President, Calfornia State Employees' Association

Tom Moore, California State Council, SEIU

Milt Dobkin, California Faculty Association

Raquel Silva, Calfornia Association of Attorneys, Administrative Law Judges, and Hearing Officers in State Employment

Burt Clark, State Retiree

AGENDA ITEM 5 – SECOND READING – BLUE SHIELD OF CALIFORNIA – THREE-YEAR HMO CONTRACT RENEWAL

Richard Krolak, Chief, Office of Health Plan Administration, presented staff's recommendation on the Blue Shield of California three-year HMO contract renewal. The current 3-year contract with Blue Shield of California as the exclusive CalPERS Health Benefits Program HMO network plan expires on December 31, 2006. At the May 16, 2006, Health Benefits Committee meeting, representatives from Blue Shield presented a

proposed 3-year business plan to demonstrate the value of a continued partnership and multi-year contract.

On **MOTION** by Priya Mathur, **SECONDED** and **CARRIED**, the Committee recommended the Board approve staff's recommendation to approve a three-year contract renewal with Blue Shield of California, effective January 1, 2007.

The following people spoke on this item:

Delores Duran-Flores, California School Employees' Association Barbara LaPlante, President, California State Employees' Association, Retired Division Tom Elkin, Consultant for CSEA Retirees Neal Johnson, SEIU Local 1000

At this time, the Health Benefits Committee meeting recessed for lunch and reconvened at 1:00 p.m.

AGENDA ITEM 6 – SECOND READING – BLUE SHIELD PROPOSAL: SERVICE AREA AND BENEFIT DESIGN ALTERNATIVES FOR CERTAIN EXCLUSIVE PROVIDER ORGANIZATION AND DIRECT CONTRACT COUNTIES

Richard Krolak, Chief, Office of Health Plan Administration, presented staff's recommendation to: 1) approve Blue Shield's proposal to discontinue its HMO plan in five Exclusive Provider Organization counties (Colusa, Lake, Mendocino, Plumas and Sierra) effective January 1, 2007; and, 2) defer action on Blue Shield's service area and benefit design alternatives proposal for eight Direct Contract counties (Butte, El Dorado, Glenn, Mariposa, Napa, San Luis Obispo, San Mateo and Sonoma) for consideration as part of the 2008 rate renewal process.

On **MOTION** by Rob Feckner, **SECONDED** and **CARRIED**, the Committee voted to defer both proposals to the 2008 rate renewal process.

The following people spoke on this item:

Neal Johnson, SEIU Local 1000

Tom Elkin. Consultant for CSEA Retirees

Milt Dobkin, California Faculty Association and Califonia State University, Retiree

Steve Szalay, Executive Director, State Sheriffs' Association

Chuck Smith, Operating Engineers Local Union 3

Delores Duran-Flores, California School Employees' Association

AGENDA ITEM 7 – SECOND READING – BLUE CROSS OF CALIFORNIA SELECT PPO PROPOSAL

Richard Krolak, Chief, Office of Health Plan Administration, presented staff's recommendation to approve the Blue Cross of California Select PPO as a third, lower-cost, self-funded PPO offering in 2007.

On **MOTION** by Debbie Endsley and **SECONDED**, the Committee recommended the Board approve staff's recommendation to approve the Blue Cross of California Select PPO as a third PPO option in 2007.

The Chair requested a roll call vote.

An electronic vote was taken:

James Zerio representing Philip Angelides NO George Diehr, Chair NO

Rob Feckner ABSTAIN

Marjorie Berte YES
Priya Mathur, Vice Chair YES
Debbie Endsley representing Michael Navarro YES
Tony Oliveira YES
Charles Valdes NO
Cindy Aronberg representing Steve Westly NO

The final vote was 4 YES, 4 NO, 1 ABSTAIN. The motion **FAILED**.

On **MOTION** by Charles Valdes, and **SECONDED**, the Committee recommended the Board defer this item to the 2008 rate renewal process.

The Chair requested a roll call vote.

An electronic vote was taken:

James Zerio representing Philip Angelides YES George Diehr, Chair YES Rob Feckner YES Marjorie Berte NO Priya Mathur, Vice Chair NO Debbie Endsley representing Michael Navarro NO Tony Oliveira NO **Charles Valdes** YES Cindy Aronberg representing Steve Westly YES

The final vote was 5 YES, 4 NO. The motion **CARRIED**.

The following people spoke on this item:

Tom Elkin, Consultant for CSEA Retirees

Milt Dobkin, CalPERS Member

Neal Johnson, SEIU Local 1000

Kristen Haynie, California Association of Professional Scientists and the Professional Engineers in California Government

Delores Duran-Flores, California School Employees' Association

AGENDA ITEM 8 - MEDICARE PART D OPTIONS FOR 2007

Sandra Felderstein, Chief, Office of Health Policy and Program Support, presented staff's recommendations on the Medicare Part D options for 2007.

On **MOTION** by Priya Mathur, **SECONDED** and **CARRIED**, the Committee recommended the Board approve staff's recommendation, given recent legislative actions, that for 2007, CalPERS apply for the Retiree Drug Subsidy (RDS) consistent with the Board's application regarding Medicare Part D for calendar year 2006.

Charles Valdes voted NO.

James Zerio ABSTAINED.

AGENDA ITEM 9 – APPROVAL OF 2007 HEALTH MAINTENANCE ORGANIZATION PLAN BENEFITS AND RATES

Richard Krolak, Chief, Office of Health Plan Administration, presented staff's recommendation for the 2007 Health Maintenance Organization Plans benefits and rates (state and regional).

On **MOTION** by Rob Feckner and **SECONDED**, the Committee recommended the Board approve the staff recommended 2007 Health Maintenance Organization Plans benefits and rates (state and regional) as set forth in Attachment 1.

Mr. Valdes requested a roll call vote.

James Zerio representing Philip Angelides	NO
George Diehr, Chair	YES
Rob Feckner	
Marjorie Berte	YES
Priya Mathur, Vice Chair	YES
Debbie Endsley representing Michael Navarro	YES
Tony Oliveira	YES
Charles Valdes	NO
Cindy Aronberg representing Steve Westly	NO

The final vote was 5 YES, 3 NO. The motion **CARRIED**.

At this time, the Health Benefits Committee took a ten minute recess.

AGENDA ITEM 10 – APPROVAL OF 2007 SELF-FUNDED HEALTH PLANS BENEFITS AND RATES

Richard Krolak, Chief, Office of Health Plan Administration, presented staff's recommendation for the 2007 Self-Funded Health Plans benefits and rates (state and regional).

On **MOTION** by Debbie Endsley, **SECONDED** and **CARRIED**, the Committee recommended the Board approve the staff recommended 2007 Self-Funded Health Plans benefits and rates (state and regional) as set forth in Attachment 2.

James Zerio voted NO.

AGENDA ITEM 11 – APPROVAL OF 2007 ASSOCIATION PLAN BENEFITS AND RATES

Richard Krolak, Chief, Office of Health Plan Administration, presented 2007 rate and benefit proposals for the Association Plans: California Association of Highway Patrolmen (CAHP) Health Benefits Trust, California Correctional Peace Officers' Association (CCPOA) Benefit Trust, and Peace Officers' Research Association of California (PORAC) Benefit Trust.

On **MOTION** by Rob Feckner, **SECONDED** and **CARRIED**, the Committee recommended the Board approve the 2007 Association Plans rates and benefits as set forth in Attachment 3.

James Zerio voted NO.

AGENDA ITEM 12 – DESIGNATION OF 2007 RURAL SUBSIDY SERVICE AREAS

Sandra Felderstein, Chief, Office of Health Policy and Program Support, presented staff's recommendation on the proposed eligible Rural Subsidy ZIP codes, effective January 1, 2007.

On **MOTION** by Debbie Endsly, **SECONDED** and **CARRIED**, the Committee recommended the Board approve staff's recommendation to forward the list of eligible ZIP codes as set forth in the agenda item to the Department of Personnel Administration (DPA) for use in administering its Rural Health Care Equity Program and grant staff the authority to notify DPA of changes to the Board-approved ZIP code list throughout the 2007 plan year.

AGENDA ITEM 13 – STATE ANNUITANT CONTRIBUTION FORMULA

As an information item, Sandra Felderstein, Chief, Office of Health Policy and Program Support, presented the 2007 State Annuitant Contribution amounts based on the proposed 2007 premium rates.

AGENDA ITEM 14 – FIRST READING – LONG-TERM CARE PROGRAM 2005 AND EARLIER RATES – PROPOSED MITIGATION STRATEGIES

As an information item, Richard Krolak, Chief, Office of Health Plan Administration, presented a first reading of staff's proposed mitigation strategies to address the deficit position of the Long-Term Care Program. At the direction of the Committee, staff had prepared and distributed to the Health Benefits Committee and the CalPERS Board, prior to the meeting, a mitigation strategy that includes rate increases on all policies in-force and other actions. The Long-Term Care Advisory Committee (Committee) requested the Program's actuary provide rate increase scenarios based on specific assumptions. The Committee will meet again in July to discuss the results of the analysis.

The following people spoke on this item:

Ann McWherter, Chair, Long-Term Care Advisory Committee Wilma Krebs, Retired Public Employees' Association Mike Richard, California State Employees' Association, Retired Division

AGENDA ITEM 15 – ASSISTANT EXECUTVE OFFICER REPORT

Terri Westbrook, Assistant Executive Officer, Health Benefits Branch, provided an update on the Health Actuarial and Benefits Consultant Services Pool. In May 2006, staff was directed to select all four qualifying candidates and negotiate contracts with each of them. CalPERS staff have successfully negotiated and executed contracts with three of the four firms; Buck Consultants, Mercer Health and Benefit, and Watson Wyatt. Milliman is still outstanding. The new consulting pool goes into effect on July 1, 2006.

Ms. Westbrook also acknowledged the hard work and effort the CalPERS Health Benefits Branch staff put forth in developing the policy initiatives for the 2007 rate renewal.

AGENDA ITEM 16 – PROPOSED AGENDA FOR THE AUGUST 15, 2006, HEALTH BENEFITS COMMITTEE MEETING

The proposed August 15, 2006, Health Benefits Committee Agenda was approved as presented.

AGENDA ITEM 17 – PUBLIC COMMENT

There was no public comment.

The meeting was adjourned at 3:41 p.m.

The next meeting of the Committee is scheduled for August 15, 2006, in Sacramento, California, following adjournment of the Benefits and Program Administration Committee.

FRED BUENROSTRO
Chief Executive Officer